“Integrating brand and marketing perspectives in M&A”

AUTHORS	Florian Andreas Bauer Kurt Matzler https://orcid.org/0000-0002-3132-4388 Claudia Wille

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SECTION 3. General issues in management

Florian Andreas Bauer (Austria), Kurt Matzler (Austria), Claudia Wille (Austria)

Integrating brand and marketing perspectives in M&A

Abstract

Marketing and branding issues are broadly ignored in the current M&A literature. Even though some recent studies empirically prove their importance, large-scale studies on this topic are practically nonexistent. Against this background the authors develop an integrative research model that connects marketing and brand issues from the pre-merger phase (market relatedness and brand relatedness) with central constructs of the post-merger phase (marketing integration and brand integration) and M&A performance. The theoretical framework was tested empirically across a sample of 72 M&A transactions in the German-speaking part of central Europe. The results give clear evidence that market relatedness and brand relatedness influence the degree of marketing integration, which in turn influences M&A performance. Brand relatedness has a direct impact on M&A performance, and brand integration strategy negatively influences M&A performance. No significant relationship between brand relatedness and brand integration strategy is found.

Keywords: brand, marketing, M&A performance.
JEL Classification: M31.

Introduction

Mergers & Acquisitions (M&A) are a prominent literature topic. For more than 100 years they have played an important role in management research and practice (Cartwright & Schoenberg, 2006). M&A – as an important section of corporate development and external growth – should enable firms to grow rapidly and to enhance value (Vu, Shi & Hanby, 2009). Interest in M&A is still growing, even though success rates have been poor. Conceptually, M&A enable firms to enhance value but practically, 40% to 60% fail in doing so (Bagchi & Rao, 1992; Bower, 2001; Cartwright & Cooper, 2001; Datta, 1991). M&A usually follow a three-step process that consists of the pre-merger, merger and post-merger phase. Most research has analyzed pre-merger or merger issues. Especially "strategic fit", as a pre-merger indicator for synergetic potential, is next to financial studies, one of the most prominent topics in M&A research (Cartwright, 2006; Wang & Zajac, 2007). Beyond the focus on the pre-merger and the merger phase, there is a growing recognition of the importance of post-merger issues (Larsson & Finkelstein, 1999; Stahl & Voigt, 2008). Cultural, organizational or process issues in particular seem to be decisive for a successful integration and successful M&A (Cording, Christmann & King, 2008; Haspeslagh & Jemison, 1991).

In their review of thirty years of mergers and acquisitions research, Cartwright and Schoenberg (2006) identify two main focuses of M&A research: (a) the identification of strategic factors; and (b) the identification of process factors that may explain performance differences between transactions. The "strategic fit" literature discusses strategic attributes of two companies as determinants of success with a particular emphasis on the question whether the businesses of the companies should be related or not. Meta-analytic studies do not provide unequivocal answers to this question (King, Dalton, Daily & Covin, 2004). Hence, it is concluded that M&A performance cannot be explained by "strategic fit" alone, without considering the integration process (Cartwright & Schoenberg, 2006). "Process literature" considers the acquisition process and integration strategy as critical to success, recognizing that "all value creation takes place after the acquisition" (Haspeslagh & Jemison, 1991). Typical research questions in this stream of literature focus on contingency frameworks for integration approaches (Cartwright & Cooper, 2001), the role of experience (Hayward, 2002), or speed of integration (Homburg & Bucerius, 2006). To summarize, "relatedness" and post-merger integration are key variables in M&A research and M&A success cannot be sufficiently explained without considering the interplay between these two factors (Cartwright & Schoenberg, 2006). Extant research exists that studies relatedness and integration from various perspectives (Cartwright, 2006; Cartwright & Schoenberg, 2006; King et al., 2004), but rarely from a marketing and brand perspective.

Although it is generally agreed that marketing and branding are key variables in value creation (Madden, Fehle & Fournier, 2006; Pahud de Mortanges & Van Riel, 2003; Srivastava, Shervani & Fahey, 1998; Stahl, Matzler & Hinterhuber, 2003), astonishing little research relates marketing and brand issues to M&A. Corporate brands can be seen as strategic assets. They are valuable and relevant for the performance of companies (Kumar & Blomqvist, 2004). Brand value can account for up to 70% of the market value of a company (Lindemann,

2003). Despite their enormous value and importance as intangible assets, brands are largely ignored by current M&A literature (Jaju, Joiner & Reddy, 2006). It is generally acknowledged that in M&A, brands are critical assets and often account for a significant value in a transaction, ranging from 1% to 50% of the merger transaction amount (Bahadir, Bharadwaj & Srivastava, 2008). Nevertheless, in many mergers the focus is on financial issues and marketing and brand-related issues are widely ignored (Balmer & Dinnie, 1999b). Studies found that in almost two thirds of the deals, brand strategy was of low priority in pre-merger discussions (Ettenson & Knowles, 2006). Also, in the post-merger phase, brand integration is widely neglected (Kernstock & Brexendorf, 2012). This is surprising, as it has been reported that the negligence of brand integration processes is a main reason why some mergers fail (Kernstock & Brexendorf, 2012).

Marketing literature highlights the importance of brand management during a merger (e.g. Bahadir et al., 2008; Balmer & Dinnie, 1999; Gussoni & Mangani, 2012; Homburg & Bucerius, 2005; Kumar & Blomqvist, 2004). It is known that M&A can change customer attitudes and perceptions of a firm and its products (Bekier & Shelton, 2002), that M&A lead to a high level of uncertainty among customers, and an increased risk of customer churn during or after M&As (Thorbjørnsen & Dahlén, 2011).

With the exception of a handful of studies (Bahadir et al., 2008; Capron & Hulland, 1999; Homburg & Bucerius, 2006; Swaminathan, Murshed & Hulland, 2008; Thorbjørnsen & Dahlén, 2011), the role of marketing and brands in M&A is widely ignored.

Only very few studies investigate the importance of brand integration and the mechanisms through which brand value is affected through M&A (Kernstock & Brexendorf, 2012; Vu et al., 2009).

"Relatedness" is a central topic in M&A research which is studied from many perspectives (e.g. Cassiman, Colombo, Garrone & Veugelers, 2005; Homburg & Bucerius, 2006; Hussinger, 2010; Makri, Hitt & Lane, 2010). Although marketing is an important function and brands are important assets, no studies exist that conceptually and empirically investigate "relatedness" and integration and their interplay from a marketing and brand perspective. (Vu et al., 2009) conclude: "This literature review reveals that there is currently no research that has resulted in a model describing the strategies and process for the successful integration of brands in post-horizontal M&As" (p. 41). This study attempts to fill this void. Drawing on previous work on "relatedness" and integration in strategic management research, we develop a conceptual model that relates market and brand relatedness to marketing and brand integration, and consequently to M&A performance.

Building on literature about the role of "relatedness" (e.g. King et al., 2004; Seth, 1990; Swaminathan et al., 2008), we argue that market relatedness, defined as "the extent to which the firms' offers are similar in terms of the customers' needs that they satisfy, quality, and price positioning" (Homburg & Bucerius, 2005), is an important antecedent to marketing integration and to M&A performance. We also argue that brand integration is more likely to occur if the target's target markets are similar to the acquirer's target markets. Market relatedness is cited to be an indicator for the synergy potential of a transaction (Capron & Hulland, 1999) and is in our model, therefore, excepted to positively influence performance.

Furthermore, drawing on brand extension literature (e.g. Bottomley & Holden, 2001; Park, Milberg & Lawson, 1991), we argue that brand relatedness (i.e. brand image fit) facilitates marketing integration, allowing opportunities for univocal marketing activities. Brand relatedness offers less opportunities and also lowers the need to change brand concepts. It positively influences performance as brand relatedness reduces customer uncertainty and customer churn after a merger or acquisition. Finally, we argue that any change in brand concepts is associated with costs and risks and should, therefore, negatively impact M&A performance.

We test our model on a sample of 72 consultants that have extensive experience in M&A consultancy. The results yield important theoretical and managerial implications.

1. Franework and hypotheses

1.1. Framework. Due to the fact that our study focuses on marketing and branding issues along the M&A process, we have developed a cross-stage research model (pre-merger issues, post-merger issues, and performance). We argue that M&A performance depends on the central marketing and branding constructs of the pre-merger phase as well as on the central constructs of the post-merger phase. In the following section we develop the theoretical underpinnings and the hypotheses of our research model as shown in Figure 1.

1.2. Hypotheses development. Market relatedness strategic fit or relatedness is a main topic in the strategic management literature (Swaminathan et al., 2008). Researchers in this field presume that strategic fit or relatedness is decisive for M&A success (King et al., 2004; Seth, 1990). The central argu-

ment for the direct performance linkage is that related resources lead to more effective and efficient use and, therefore, to better performance (Kim & Finkelstein, 2009). Strategic management literature considers relatedness as aspects either external (outside the organization, e.g. target markets, products, or positioning) or internal (inside the organization, e.g. management styles, culture, strategic orientation) to the organization (Homburg & Bucerius, 2006). It is regularly argued that relatedness – independent from its operationalization – is an indicator for the synergy potential of a transaction (Meyer & Altenborg, 2008). Even though the empirical results are not univocal, a higher relatedness seems to equal better results (Capron, Mitchell & Swaminathan, 2001; Prabhu, Chandy & Ellis, 2005; Swaminathan et al., 2008; Tanriverdi & Venkatraman, 2005).

In this study, we analyze the role of (external) market relatedness and its direct and its indirect impact (via marketing integration) on M&A success. In line with Homburg and Bucerius (Homburg & Bucerius, 2005), we define market relatedness as "the extent to which the firms' offers are similar in terms of the customers' needs that they satisfy, quality, and price positioning" (p. 99).

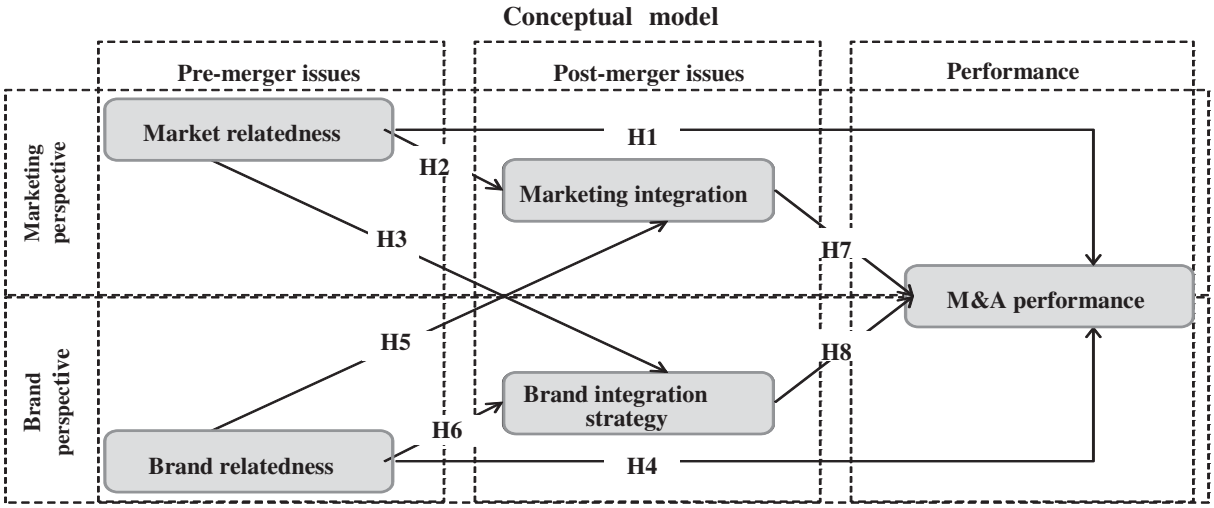

Fig. 1. Conceptual model

From a marketing perspective, a high market relatedness is cited to be an indicator for the synergy potential of a transaction (Capron & Hulland, 1999). Consistent with previous studies we argue that relatedness leads to a higher potential of cost reductions (Hagedoorn & Duysters, 2002; Homburg & Bucerius, 2005). Lower market relatedness requires more changes (e.g. repositioning the strategic focus) and increases risks (Larsson, 1989). It has also been found that unrelated transactions can increase customer uncertainty (Homburg & Bucerius, 2005) and even lead to reactance if customers' perceived freedom of choice is threatened (Thorbjørnsen & Dahlén, 2011). Based on these arguments, we propose:

Hypothesis 1: The greater the extent of market relatedness, the greater the M&A performance.

Due to the fact that market relatedness is an indicator for potential synergies, there is a growing recognition that value creation takes place in the post-merger integration phase (Haspeslagh & Jemison, 1991; Larsson & Finkelstein, 1999). Only through the harmonization of two former independent firms, can the perceived potentials be leveraged and redundant resources be eliminated (Birkinshaw, Bresman & Håkanson, 2000; Datta, 1991; King et al., 2004). Therefore, well-established operational sequences and patterns are partially or completely changed, and throughout the new company, harmonized (Buono & Bowditch, 2003; Haspeslagh & Jemison, 1991). Due to employee resistance and potential cultural clashes, this phase is very risky. To reap the benefits of resource redeployment and exploitation as well as the elimination of redundant resources, integration is necessary (Cording et al., 2008; Homburg & Bucerius, 2006; Karim, 2006; Pablo, 1994). However, the degree of integration is a mixed blessing. On the one hand, integration is necessary for synergy and potential realization and therefore critical to success (Larsson & Finkelstein, 1999). On the other hand, a high degree of integration requires changes of procedures, policies, and patterns; it increases coordination costs and risks (Arjen, 2006; Pablo, 1994; Teerikangas & Very, 2006). Therefore, it is reasonable to assume that integration of the marketing function is easier, when the markets of the involved companies are related (i.e. similar in terms of the customers' needs that the companies satisfy, quality, and price positioning). Therefore, we argue that firms with high market relatedness tend to integrate deeper and try to harmonize their marketing to a greater extent. There are

two main arguments for high harmonization of marketing. First, companies can save costs through eliminating redundant resources and processes, and second, companies can bundle their marketing activities to create more market power and pool their resources. Thus, we propose the following hypothesis.

Hypothesis 2: The greater is the extent of market relatedness, the greater is the degree of marketing integration.

Corporate brands can serve to communicate the positioning, identity, and strategic intent of the merged company and can also help to influence the expectations, perceptions, and behavior of all affected stakeholders like customers, employees, and investors (Mizik, Knowles & Dinner, 2011). There are various branding strategies after an acquisition or a merger that can range, for example, from leaving the brands under their old strategy, rebranding one brand with the other firm's brand, or creating a new joint brand (Basu, 2006; Mizik et al., 2011; Vu, Shi & Gregory, 2010). Vu et al. (2010) reduce the branding strategies to a cost-saving objective or a growth objective. In both cases a thorough analysis of market and customer overlapping are necessary. It is reasonable to assume that the more similar offers are in terms of satisfying customers' needs, quality, and price positioning (see our definition of market relatedness), the less is the need or even the opportunity of brand integration. On the other side, growth or cost-saving objectives through M&As require much more effort regarding brand integration, if the two brands target different customer segments and needs, and if the two brands are differently positioned regarding quality and price. We propose the following.

Hypothesis 3: The greater is the extent of market relatedness, the lower are the changes in brand concepts.

1.3. Brand relatedness. Most branding-focused academic research investigates the underlying phenomenon under stable organizational conditions (Bahadir et al., 2008). Against this stable background, mergers and acquisitions display more disruptive events that affect customers, employees and investors (Mizik et al., 2011). A similar situation occurs in brand extensions. As brands are valuable resources of companies, it is a popular strategy to extend the reputation of a brand in multiple product categories (Dacin & Smith, 1994). In this literature, many authors point out the role of fit (Bottomley & Holden, 2001; Park et al., 1991). A high or low fit occurs if the brand extension – viewed as a new instance – is more or less similar to the existing brand (Czellar, 2003). Most fit concepts are based on similarity on product level, brand name concepts or brand logo concepts (Bottomley & Holden, 2001; Keller & Lehmann, 2006; Park et al., 1991). Park et al. (1991) operationalized the perceived brand fit with product level similarity and brand image similarity. Brand image is defined as perceptions about a brand in the eyes of consumers (Keller, 1993). Thus, brand fit refers to the match between the image of the brand and its extension (Czellar, 2003). Academic studies indicate that best consumer evaluation results could be received with both a high product and a high brand fit (Park et al., 1991). Dacin and Smith (1994) found that the lower the variances in brands are, the better the evaluations of consumers are. Adapting the concept of brand image fit to M&A, we argue that in the M&A context a high brand image fit (product similarity is already displayed in the construct market relatedness) fosters better consumer evaluations. Better consumer evaluations lead to lowered uncertainty and, therefore, to less or no drift away effects of consumers. The ongoing loyalty of existing customers after a merger is a key for financial success, market share, and profitability after a merger (Mizik et al., 2011). Thus, we propose a positive effect from brand relatedness to success.

Hypothesis 4: The greater is the extent of brand relatedness, the greater is the M&A performance.

Market relatedness and brand relatedness can be regarded as indicators for potential synergies. Therefore, we argue that high brand relatedness offers opportunities for univocal marketing activeties. As already stated, brands are strategic assets (Kumar & Blomqvist, 2004), which are managed through the marketing mix. To establish strong brands, there must be coherence between the brand concept and marketing activities (Park, Jaworski & Maclnnis, 1986). Goal-oriented marketing activities are consistent with their brands (Keller, 1999) and could, therefore, foster the brand value (Yoo, Donthu & Lee, 2000). If there is coherence between brand concept and marketing, a high brand similarity seems to be an appropriate indicator for marketing integration potentials. These potentials are cost savings through the elimination of redundant resources on the one hand and the bundling of marketing activities and power on the other. Thus, we propose the following relationship.

Hypothesis 5: The greater is the extent of brand relatedness, the greater is the degree of marketing integration.

Companies usually differ in the levels of brand equity they bring to a merger (Lambkin & Muzellec, 2010) and brands can be critical assets in M&As

(Bahadir et al., 2008). The two companies' brands can differ in their heritage (Lambkin & Muzellec, 2010) and in their brand equity (Keller, 2003). If the two companies strongly differ in the brand equity (i.e. in its two key components: brand awareness and strong, favorable, and unique brand associations), there is more need to integrate the brands to tap synergies, reduce redundancies, or to avoid brand dilution. At the same time every major change of the brand concepts leads to costs and potentially to customer uncertainty (Homburg & Bucerius, 2005), reactance (Thorbjørnsen & Dahlén, 2011), or customer churn. Hence, a higher degree of brand relatedness indicates a lower need to integrate; it also offers fewer opportunities to integrate and as every change of brand concepts is costly and risky, we argue that brand relatedness leads to lower brand integration.

Hypothesis 6: The greater is the extent of brand relatedness, the lower are the changes in brand concepts.

1.4. Marketing integration. The post-merger phase is cited to be decisive for M&A (Birkinshaw et al., 2000; Haspeslagh & Jemison, 1991; Stahl & Voigt, 2008). In this phase, well-established routines of firms are partially or completely changed to reach a desired degree of harmonization (Buono & Bowditch, 2003; Haspeslagh & Jemison, 1991). Research on the degree of integration leads to mixed results. A high degree of integration means enormous changes and, therefore, enormous coordination costs (Pablo, 1994; Teerikangas & Very, 2006), but there is empirical evidence showing that at least some degree of integration is necessary and even decisive for M&A success (Chatterjee, Lubatkin, Schweiger & Weber, 1992; Singh & Montgomery, 1987; Zollo & Singh, 2004). Even though there is empirical evidence that marketing integration is – in the short term – negatively associated to M&A performance (Homburg & Bucerius, 2005), we argue that, in the long term, marketing integration fosters M&A performance due to two reasons: (1) relatedness as well as harmonization lowers inter and intra brand competition; (2) the elimination of redundant resources enables firms to bundle their marketing activities. Therefore, we propose the following relationship.

Hypothesis 7: The higher is the degree of marketing integration, the greater is the M&A performance.

1.5. Brand integration strategy. With regard to brand integration, different integration strategies with different levels of change can be identified (e.g. Brockdorff & Kernstock, 2001). First, the simplest version is some kind of multi-brand strategy. Both buyer and target brand remain unchanged. Second, the hybrid-brand strategy combines both brand concepts (e.g. Daimler Chrysler) into one big brand concept. Third, the predominance-brand strategy leads to a complete abandonment of one brand. Fourth, the recreation strategy leads to a complete abandonment of both – buyer and target – brands. A new brand is created and designed (e.g. Evonik Industries).

In an M&A, brands have many constituents, e.g. business partners, shareholders, communities or employees (Basu, 2006). A change of the brand concept usually leads to uncertainty and ambiguity among all the constituents. Among the external constituencies, the customer is the most important one. Any change in a brand concept implies the discontinuation of the status quo for the target customers, which customers perceive as external incidents outside the customers' control that influence their relationship with the brand. Based on theory of psychological reactance (Brehm, 1966), Thorbjørnsen and Dahlén (2011) argue: "customers of a target brand will likely experience reactance if and when an acquiring brand integrates the two companies either under the acquirer corporate brand or under a new brand name" (p. 333). Indeed, there is some empirical evidence of negative reactions of customers to changes imposed on them due to M&As. Sikora (2005), for instance, reports that 58-69% of customers believe that they do not benefit from M&As and Thornton et al. (2004) found that even two years after the merger, customers' satisfaction ratings were still below that before the merger.

Internally, a change of the brand concept might also negatively affect the employees' identification with the organization (Smidts, Pruyn & Riel, 2001). As explained by social identity theory, for employees a workplace is an important component of the self-concept in terms of identification with the organization (Cornelissen, Haslam & Balmer, 2007). It has been shown that M&As can negatively influence the employees' identification with the organization leading, for instance, to turnover intentions, lower job satisfaction, and lower organizational citizenship behavior (Cornelissen et al., 2007). Hence, a change of the brand concept holds the danger of changing organizational identity as one of its negative consequences.

A further negative effect of dramatic brand concept changes has its roots in the costs. There are promotion costs (web-pages, business cards, launch announcement packages, etc.), the losses of the former brand(s) as strategic assets, and hidden or opportunity costs (Stuart & Muzellec, 2004). Therefore, we argue that changes in brand concepts negatively influence M&A performance as they go hand in

hand with high risks and costs. Thus, we propose the following hypothesis.

Hypothesis 8: The higher are the changes in brand concepts, the lower is the M&A performance.

2. Methodology

2.1. Sample and data. For testing our proposed hypotheses, we used mail and Internet survey methodology for data collection in spring 2010. In our survey, we concentrated on the German-speaking part of central Europe (Austria, Germany and Switzerland) and focused on external M&A advisors and consultants. Due to the fact that the reliability of information from managers or internal experts could be questioned (Podsakoff, MacKenzie, Lee & Podsakoff, 2003), we decided to interview external experts. For assessing our conceptual framework, we needed consultants that were involved in the whole M&A process. Our original sample consisted of consulting companies that are members of the M&A Association Germany, members of the Certified M&A Consultants Germany, members of the M&A Alumni Germany, and certified M&A consultants in Austria and Germany. After gathering information about the companies (via Internet, email, and phone calls), we deleted all companies that were only legal or tax advisors and those companies that were only involved in one phase of the M&A process. Via phone calls, we identified senior consultants that had practical experience of a minimum of 3 transactions. Our final sample consisted of 117 consulting companies who accompanied about 1.000 transactions in the last decade. We sent out a questionnaire to each identified advisor via email and mail. Concerning the structure and the design of our questionnaire, we followed the recommendations of Dillman (2000). Each advisor should focus on one specific transaction in which he was involved as a consultant. For investigating M&A performance effects, usually an integration period of three to five years is necessary. Within this period one could guarantee that the integration process is already completed or in a final stage (Ellis, Reus & Lamont, 2009; Homburg & Bucerius, 2005; Zollo & Meier, 2008) and that the capacity of recollection of the informant is still granted (Krishnan, Miller & Judge, 1997; Reus & Lamont, 2009). In our cover letter, we asked the consultant to recollect a transaction that took place between 2005 and April 2008. Two weeks after sending out our questionnaire, we started with follow-up phone calls. Finally, 72 usable questionnaires were returned.

The results of a non-response bias test – comparing early and late respondents – indicate that non-response bias is not a serious problem (Armstrong & Overton, 1977). After conducting Berdie and Anderson's item response rate index, we conclude that item non-response bias is not a major problem in our data (Berdie & Anderson, 1976).

2.2. Measurement development. Instead of developing new measurement models, we followed the advice of King et al. (2004) and colleagues and built our research on already existing and valid models.

2.2.1. Market relatedness. For assessing market relatedness, we used items developed by Homburg and Bucerius (2005). Hence, market relatedness was measured with five items. Instead of using a seven-point scale – as used by Homburg and Bucerius – we decided to apply a five-point scale due to the fact of the decreasing capacity of recollection (Sudman & Bradburn, 1973). The scale ranged from 1 = strongly disagree to 5 = strongly agree.

2.2.2. Brand relatedness. For assessing brand relatedness, we applied the scale from Becker (Becker, 2005). Becker developed an image/brand fit measurement model consisting of six items. For the same reason as with the measurement model of market relatedness, we decided on applying a five-point scale ranging from 1 = strongly disagree to 5 = strongly agree.

2.2.3. Marketing integration. Marketing integration was assessed with eight items. These items measure the harmonization of e.g. communication or distribution. This construct was taken from Homburg and Bucerius' work on marketing integration (Homburg & Bucerius, 2005). Marketing integration was again assessed with a five-point scale, ranging from 1 = no integration/harmonization at all to 5 = complete integration/harmonization.

2.2.4. Brand integration strategy. Brand integration strategy was assessed with a single item construct. We requested the applied brand integration strategy categorized upon their inherent degree of change. The scale reaches from 1 = multi-brand strategy (with an inherent low degree of changes) to 4 = recreation brand strategy (with an inherent high degree of change).

2.2.5. M&A performance. M&A performance measures can be categorized as stock market-based, accounting-based or assessment-based. Stock market and accounting-based measures, as so called quantitative objective indicators, usually focus on short-term periods around the announcement day. Therefore, the importance of the integration phase is neglected and "potentially relevant dimensions of firm performance" are ignored (King et al., 2004). Furthermore, stock market and accounting-based measures have the inherent problem of interpretation due to different valuation rules (Becker, 2005). Even

though it is stated that managers from the acquiring firms tend to have an enormous knowledge about the transaction and the integration phase and there is empirical evidence that their ratings correlate (highly and significantly) with objective success measures (Capron & Hulland, 1999; Datta, 1991; Homburg & Bucerius, 2005; Homburg & Bucerius, 2006; Walsh, 1988), we decided to interview external experts for three reasons. First, external experts tend to be less biased with socially desirable elements as they do not belong to the acquiring organization (Zollo & Meier, 2008). Second, they have been involved in the acquisition process in a supervisory role, so these informants were more intimately linked to the process than other external experts such as stock analysts or observers (Hayward, 2002a). Third, according to Zollo and Meier (2008), consultants as respondents have the advantage of being more quantitatively oriented than the average manager. In a study on the quality of M&A performance measures, Zollo and Meier came to the conclusion that when scholars use subjective performance measures they should "survey advisors rather than managers" (p. 72). For assessing M&A performance, we used the two-item scale from Homburg and Bucerius (2005) consisting of the changes in market share and profitability after the acquisition. It is important to note that the requested transactions had at a minimum two years of integration. Both items were assessed with a five-point scale ranging from 1 = strongly negative development to 5 = strongly positive development.

As control variables we use type of transaction, relative size, target markets, and the year of transaction. We choose these particular controls due to their potential impact on marketing and branding issues during the M&A process. All controls were single-item measured.

3. Results

3.1. Descriptive data and research approach. Table 1 shows the descriptive data of our research. It gives information about the relative size, the type of transaction, the year of transaction, and the target markets of the merging companies.

For testing the proposed hypotheses, structural equation modeling (SEM) seems to be an applicable approach. SEM allows us to test relationships between latent variables; it combines factor analyses with regression analyses (Chin, 1998). Due to the small sample size, the complex model, and the more explorative character of our study, we decided for a variance-based instead of a co-variance-based approach with the program SmartPLS (Hulland, 1999). Due to the reflective operationalization of our measurement models, we expect similar robust results as with a co-variance approach (Vilares, Almeida & Coelho, 2010). Despite the argument of less restrictive requirements in a variance-based approach, it must be noted that PLS does not have the same amount and quality of fit indices as a co-variance-based approach. The only overall quality criterion in PLS is the Goodness-of-Fit index developed by Tennenhaus et al. (Tenenhaus, Vinzi, Chatelin & Lauro, 2005).

Table 1. Descriptive data

Type of transaction		Market relatedness		
		Buyer markets	Target markets	
Horizontal	43.1%	b2c	b2b	8.3%
Vertical	37.5%	b2b	b2b	
Conglomerate	19.4%	b2c	b2c	84.7%
		b2b	b2c	6.9%
Relative size (number of emloyees)				
Buyer size	Target size			
	< 50	< 250	< 500	> 500
< 50	8	2	-	-
< 250	9	6	-	3
< 500	-	10	4	-
> 500	12	10	2	6

3.2. Common method bias. Due to the fact that we are using self-reported data in our study, there is a potential for common method bias due to several reasons (consistency motif or social desirability; for details see Podsakoff et al. (2003)). For testing a potential common method bias, we first applied a Harman's single factor test (Podsakoff & Organ, 1986). The analysis results indicate that there is no major common method bias problem. Then, we applied the ad hoc approach recommended by Podsakoff et al. (Podsakoff et al., 2003). For the assessment in PLS, we followed the guidelines developed by Liang et al. (2007). As shown in the Appendix, the substantive explained variance is 0.705 and the average method variance is 0.038. The ratio is 18.5 : 1. Therefore, we conclude that common method bias is not a problem for our study.

3.3. Assessing the measurement models. Before evaluating the structural model, we assessed all first order constructs. After the deletion of two items in the latent variable "market relatedness", two items in the construct "brand relatedness" and two items in the variable "marketing integration", all factor loadings were clearly above the recommended value of 0.7 (except one item with a loading of 0.699). Due to the high loadings, all factors which are at a level of 0.01 or more prove significant. Therefore, indicator reliability is given. All Cronbach's Alpha as well as composite reliability values – both indicators for construct reliability – are clearly above the recommended value of 0.6 (Bagozzi & Yi, 1988).

The smallest Cronbach's Alpha value is 0.744 and the smallest composite reliability value is 0.846. Both quality criteria can be seen as alternatives, even though composite reliability is more robust due to the fact that it is independent from the amount of indicators (Fornell & Larcker, 1981). To sum up, it can be stated that construct reliability is satisfactory. Average Variance Extracted (AVE), as indicator for the variance explained of indicator and construct, should be greater than 0.5 (50%) to guarantee a sufficient convergent validity (Hulland, 1999). All AVE values are clearly above 0.5. For assessing discriminant validity – the complementary concept of convergent validity – we applied both an analysis on indicator level (cross loadings) and an analysis on measurement model level (Fornell-Larcker criterion). As Table 2 shows below, all indicators have higher loadings with their proposed construct than with other constructs. Therefore, discriminant validity on indicator level is satisfactory.

The Fornell-Larcker criterion, as shown in Table 3 is fulfilled. All AVE values are higher than the squared correlations among the constructs.

Table 4 gives an overview of the quality criteria of the measurement models. Due to the fact that all measurement models are valid and reliable, we could evaluate the structural model in the next step.

Table 2. Cross loadings

	Brand integration	Market relatedness	Brand relatedness	Marketing integration	M&A performance
Brand integration	**1.000**	0.064	0.061	0.057	-0.119
Market relatedness A	-0.043	**0.699**	0.206	0.243	0.069
Market relatedness B	0.029	**0.845**	0.540	0.432	0.257
Market relatedness C	0.114	**0.862**	0.507	0.499	0.248
Brand relatedness A	0.036	0.597	**0.842**	0.338	0.294
Brand relatedness B	-0.142	0.553	**0.860**	0.445	0.394
Brand relatedness C	0.061	0.404	**0.806**	0.431	0.341
Brand relatedness D	0.269	0.329	**0.822**	0.235	0.455
Marketing integration A	0.094	0.398	0.422	**0.751**	0.480
Marketing integration B	-0.059	0.261	0.399	**0.779**	0.380
Marketing integration A	0.096	0.558	0.436	**0.866**	0.492
Marketing integration B	-0.006	0.452	0.273	**0.885**	0.399
Marketing integration A	-0.001	0.303	0.275	**0.801**	0.403
Marketing integration B	0.110	0.479	0.325	**0.809**	0.474
Performance A	-0.113	0.278	0.467	0.618	**0.965**
Performance B	-0.112	0.204	0.354	0.346	**0.910**

Table 3. Fornell-Larcker criterion

	AVE and squared correlation among constucts					
	AVE	Brand relatedness	Brand integration	Market relatedness	Marketing integration	M&A performance
Brand relatedness	0.694	1.000				
Brand integration	1.000	0.004	1.000			
Market relatedness	0.649	0.316	0.004	1.000		
Marketing integration	0.667	0.194	0.003	0.266	1.000	
M&A performance	0.880	0.201	0.014	0.070	0.295	1.000

Table 4. Overview quality criteria

	Indicator reliability, construct reliability, AVE and discriminant validity					
	Brand integration	Market relatedness	Brand relatedness	Marketing integration	M&A performance	Recommended value
Composite reliability	1.000	0.846	0.900	0.923	0.936	> 0.6
Cronbach's Alpha	1.000	0.744	0.853	0.899	0.870	> 0.6
Average variance extracted	1.000	0.649	0.694	0.667	0.880	> 0.5
Cross loadings	√	√	√	√	√	
Fornell-Larcker critereon	√	√	√	√	√	
Indicator reliability	√	√	√	√	√	

3.4. Assessing the structural model. The PLS estimation results are shown in Figure 2. The R^2 value of M&A performance is 0.392. Hence, our model could explain a moderate amount of variance. The Stone-Geisser criterion (Q^2) with values above 0 indicates that the empirical data reconstruct the proposed research model in a substantive way. All Q^2 values of our research model are > 0. The following figure illustrates the results of our PLS analysis.

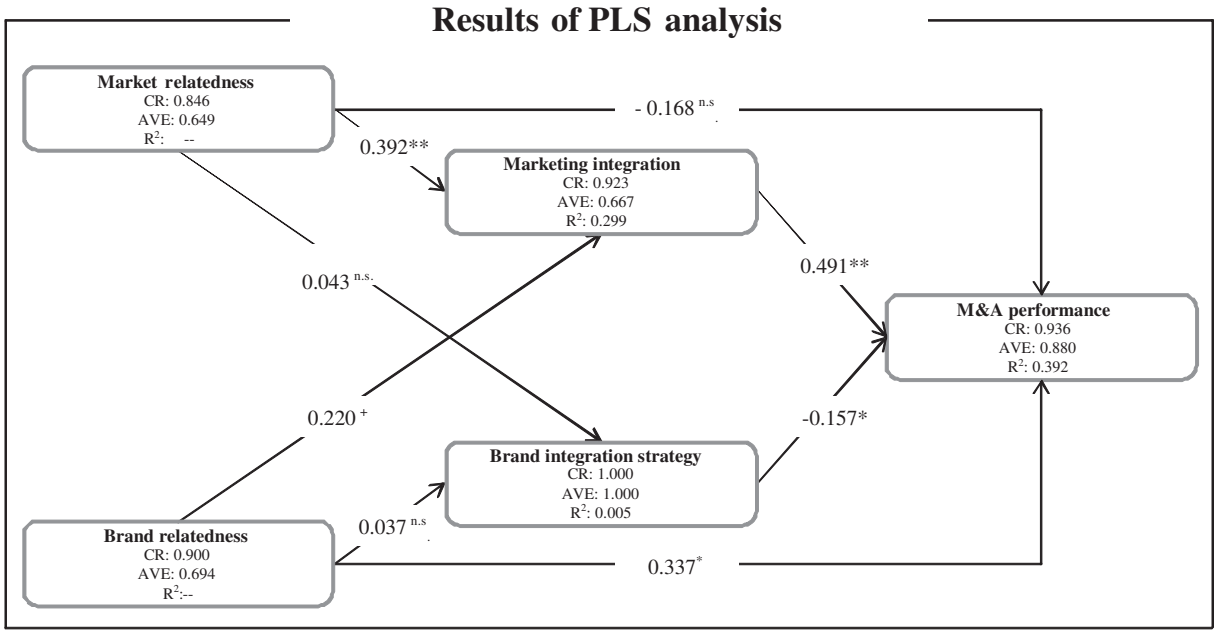

Fig. 2. Results of PLS analysis

Note: *** $p < 0.001$; ** $p < 0.01$; * $p < 0.05$; $^+ p < 0.1$.

The Goodness of Fit index (GoF), as relevant indicator for the assessing of the model fit, is 0.422. This value indicates a substantial model fit.

3.5. Hypotheses testing. Our data shows that hypothesis 1 must be rejected. The bootstrapping analysis reveals that the path is not significant (T-value 1.119). The empirical results show a strong support for hypothesis 2. The path coefficient is 0.392*[1], whereas the effect size f^2 with 0.144 is medium. Therefore, we conclude a strong positive effect from market relatedness to marketing integration. Hypothesis 3 must be rejected; we find no empirical support for the proposed relationship from market relatedness to brand integration. The influence from brand relatedness on M&A performance can be verified at a 0.05 significance level. The path is quite strong with a value of 0.337* and the effect size with a value of 0.112 can be described as medium. Therefore, there is strong empirical evidence for our hypothesis on the relationship from brand relatedness to M&A performance. Hypothesis 5 can be verified on a 0.1 significance level. Even if the path is quite strong with a value of 0.220+, it must be noted that the effect size with 0.043 is relatively small. Nevertheless, there is a positive relationship from brand relatedness to marketing integration. We find no empirical support for hypothesis 6; the path is not significant. We find strong evidence for the relationship of marketing integration and M&A performance. The path is strongly positive with a path coefficient of 0.491**; the effect size is f^2 = 0.262 and therefore nearly substantial. Due to these results, hypothesis 7 is supported. The proposed negative relationship of brand integration and M&A performance can be confirmed. The path coefficient is strongly negative with a value of - 0.157* even if the effect size with a value of 0.04 is quite low. Thus, our empirical data supports the negative relationship of changes in brand concepts and M&A performance.

The control variables have some influence on the structural model. The type of transaction has a significant influence on the brand integration strategy (-0.408**) and on firm performance (-0.316*), which indicates that horizontal and vertical transactions are more successful than conglomerate transactions. Furthermore, the negative effect of changes in the brand concepts on M&A performance is boosted by conglomerate transactions. The relatedness of the target markets itself has no direct influ-

[1] *** means $p < 0.001$; ** means $p < 0.01$; * means $p < 0.05$; $^+$ means $p < 0.1$

ence on the structural model. The relative size has no influence on M&A performance but it impacts marketing integration (0.266**) in a positive way. Therefore, buying companies tend to integrate targets with a high relative size rather than small targets. As not all consultants referred to transactions of our favored time period, we implemented the control variable "year of transaction". Interestingly, the results indicate that there are no significant time – performance (-0,007 n.s.) and time – marketing integration effects. We found empirical evidence that there are some effects on brand integration strategy. The path from year of transaction to brand integration strategy is negative and at a 10% level significant (-0.194+), but the effect size is very low ($f^2 = 0.039$).

Discussion and conclusion

Overall, our results show that market relatedness and brand relatedness are indeed important constructs in explaining M&A success. Market relatedness is an important antecedent of marketing integration but it has no direct effect on M&A performance. Thus, market relatedness can be seen as an indicator for synergies whose potential needs to be leveraged in post-merger integration. We found no empirical evidence for our proposed effect on brand integration strategy. Thus, market relatedness is no indicator for the chosen brand integration strategy. Brand relatedness has a direct impact on M&A performance, but no significant relationship with brand integration. Our model is not able to uncover indicators for brand integration strategy, even though we found empirical evidence for its enormous importance on M&A performance. Marketing and brand integration both strongly influence M&A success. While marketing integration has a positive effect on M&A performance, changes in brand concepts provide us with negative effects. Our model that connects marketing and brand issues from the pre-merger phase (market relatedness and brand relatedness) with central constructs of the post-merger phase (marketing integration and brand integration) explains 39% of the variance of M&A performance and, therefore, contributes strongly to a better understanding of the drivers of M&A success.

Implications

Theoretical implications. Our study is one of the first that integrates marketing and branding issues into the topic of M&A. Even though marketing is an under-researched topic in the M&A relation (Homburg & Bucerius, 2005) our study points out the importance of marketing integration for M&A success. Next to marketing, the branding topic is quite new to the M&A context, even though brands are cited to be valuable assets for companies (Lindemann, 2003). For the theoretical underpinning of our branding hypothesis, we had to extend our literature review on brand extension literature. Our empirical data confirms the importance of brand relatedness on M&A success as it has been previously ascertained in the brand extension literature. Furthermore brand relatedness affects marketing integration positively. However, it must be stated that brand relatedness has no significant impact on brand integration strategy. Brand integration strategy itself is an important factor for M&A performance. Our empirical results prove the negative relation of changes in brand concepts and M&A outcome. This negative effect occurs due to customer evaluations, organizational threats, and costs of change. Besides this effect, we found no substantial indicator for the chosen integration strategy. Thus, we conclude that indicators that affect the brand integration strategy are still pending and further research on this interplay issue sounds promising. As Halebian et al. have already pointed out, the influence of time on the acquisition process could be promising for future research, as our control variable "year of transaction" shows some significant effects.

As previously mentioned, our study follows the visual angle of a company's perspective. Further research could implement a customer's perspective. Even though we found no empirical evidence that the year of transaction affects M&A-performance, future research should implement different instances of time to measure the changes in customer's and organizational behavior and firm performance after the acquisition. We have to note that our performance measurement model is rather narrow; therefore, further research should apply multidimensional measurement research models. There are already empirically tested measurement models in other research streams such as the brand extension literature, which could be applicable for further research on branding and marketing in the field of M&A (e.g. Bottomley & Holden, 2001; Keller & Lehmann, 2006; Park et al., 1991).

Managerial implications. First, we found a negative relationship between brand integration strategy and M&A performance. This negative effect occurs from negative customer evaluations, organizational concerns, and costs of change. Thus, we propose that companies should only modify or change the existing brand concepts if a careful analysis of pros and cons renders it as necessary. Second, our research confirms the well-established positive relationship from the degree of integration to M&A performance. Therefore, companies should harmonize operative marketing processes due to the fact that through the bundling of marketing power and the elimination of redundant marketing resources,

M&A performance could be increased. Third, brand relatedness has a positive effect on M&A performance. Managers should not only consider strategic issues in terms of market and/or product relatedness, whose positive influence on M&A performance is not questioned (Jemison & Sitkin, 1986; Kim & Finkelstein, 2009; King et al., 2004; Sarkar, Echambadi, Cavusgil & Aulakh, 2001; Tanriverdi & Venkatraman, 2005; Wang & Zajac, 2007), but they should also focus on the issue of brand relatedness. Fourth, it can be stated that the type of transaction should be considered as a relevant issue for the determination of brand integration strategy. The data shows that the type of transaction boosts the negative effect of changes in brand concepts in the integration phase. The negative performance effects of changes in brand concepts are worse with conglomerate transactions than with horizontal or vertical transactions.

Limitations

As we have used a retrospective survey date, our study is faced with the problem of decreasing capacity of recollection (Sudman & Bradburn, 1973). Due to the fact that the integration phase takes three to five years for completion and performance measurement (Becker, 2005; Homburg & Bucerius, 2005; Homburg & Bucerius, 2006), this issue is inherent to nearly all survey-based research on M&A.

There is an area of conflict between reliable measurement and the informant's capacity of recollection. A second limitation is the correlation of the number of observations and the statistical power. Even though it is mentioned that PLS is applicable even for very small sample sizes, and our sample is bigger than the minimum required size (Chin, 1998), we have to state that at least hypothesis 1 could be verified with a larger sample. A third limitation is the perspective of our study. We follow a company's visual angle and ignore the customer's perspective. Transaction inherent changes of customer behavior can only be measured indirectly by M&A performance. Therefore, we can't say whether performance derives from customer loyalty, customer acquisition or cost-saving effects.

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Appendix

Table 1. Common method bias

Construct	Indicator	Substantive factor loading (*R*1) Sig.	$R1^2$	Method factor loading (*R*2) Sig.	$R2^2$
Brand integration	Brand_int	0.860***	0.740	0.053	0.003
Market relatedness	III_1_Fit_Leist. B	0.791***	0.626	-0.337**	0.114
	III_1_Fit_Leist. C	0.836***	0.699	0.119 n.s.	0.014
	III_1_Fit_Leist. E	0.812***	0.659	0.184*	0.034
Brand relatedness	III_2_Fit_Marke A	0.860***	0.740	-0.021 n.s.	0.000
	III_2_Fit_Marke B	0.862***	0.743	0.136 n.s.	0.018
	III_2_Fit_Marke C	0.789***	0.623	0.090 n.s.	0.008
	III_2_Fit_Marke D	0.820***	0.672	-0.209+	0.044
Marketing integration	IV_1_TI C	0.729***	0.531	0.280 n.s.	0.078
	IV_1_TI D	0.797***	0.635	-0.089 n.s.	0.008
	IV_1_TI E	0.847***	0.717	0.281+	0.079
	IV_1_TI F	0.896***	0.803	-0.247*	0.061
	IV_1_TI G	0.827***	0.684	-0.284*	0.081
	IV_1_TI H	0.802***	0.643	0.084 n.s.	0.007
M&A performance	V_1_performance A	0.945***	0.893	0.167**	0.028
	V_1_performance B	0.936***	0.876	0.180*	0.032
Average		0.838	0.705	0.024	0.038

Note: n.s. = not significant; +$p < 0.1$; * $p < 0.05$; **$p < 0.01$; ***$p < 0.001$.